



Producers 88 (8/99) Suzanne Henderson  
TX-Gen  
Paid-up, Pooling

### OIL, GAS AND MINERAL LEASE

This Lease Agreement (the "Lease") is entered into this 21<sup>st</sup> day of April, 2008, between **LUMINANT MINERAL DEVELOPMENT COMPANY, LLC**, as "Lessor," whether one or more, and **MCF Acquisition II Ltd.**, whose address is c/o Deephaven Capital Management LLC, 130 Chesire Lane, Suite 102, Minnetonka, MN, 55305, as "Lessee."

In consideration of the sum of Ten Dollars (\$10.00) and other valuable consideration, the receipt of which is acknowledged, and of the royalties and agreements of Lessee contained in this Lease, Lessor grants, leases, and lets exclusively to Lessee, its successors and assigns, all of the land described in this Lease, together with any reversionary rights of Lessor, for the purpose of exploring by geological, geophysical, and all other methods, and of drilling, producing and operating wells or mines for the recovery of oil, gas and other hydrocarbons, and all other minerals or substances, whether similar or dissimilar, that may be produced from any well or mine on the leased premises, including primary, secondary, tertiary, cycling, pressure maintenance methods of recovery, and all other methods, whether now known or unknown, with all related incidental rights. The land that is covered by and subject to this Lease is situated in Tarrant County, Texas, and is described as follows and referred to in this Lease as the "land" or the "lands":

#### SEE EXHIBIT A FOR LEGAL DESCRIPTION SEE EXHIBIT B FOR ADDITIONAL PROVISIONS TO THIS LEASE

The lands shall also include Lessor's rights and interests in all streets, roads, alleys, rights-of-way and easements that abut or are adjacent to the lands (the "Strips"). Prior to commencing operations on the leased premises, Lessee shall determine the amount of acreage included within the Strips. Lessee shall pay to Lessor an additional bonus payment equal to Lessor's net mineral acreage in the Strips times \$15,000.

This Lease covers all of the land described above, and in addition it covers and there is expressly leased, let, and demised to the same extent as if described above, all lands owned or claimed by Lessor adjacent, contiguous to or a part of the lands specifically described above, whether the additional lands are owned or claimed by deed, limitation or otherwise, and whether they are inside or outside the stated description, whether they are held under fence by Lessor or not, and whether the additional lands are in the named survey or other survey or surveys and Lessee agrees to pay bonus in all such additional lands that are determined to be covered by this Lease. This is a Lease in gross and not by the acre and the bonus money paid shall be effective to cover all such lands irrespective of the number of acres they actually contained, and the lands included within the terms of this Lease are estimated to comprise **87.6603 acres**, whether they actually comprise more or less.

1. Without reference to the commencement, prosecution, or cessation at any time of drilling or other development operations, or to the discovery, development, or cessation at any time of production of oil, gas, or other minerals, and notwithstanding anything else contained in this Lease to the contrary, this Lease shall be for a term of 3 (three) years from the date stated above (the "Primary Term") and as long thereafter as oil, gas, or other minerals are produced from the lands, or land with which the lands are pooled, or as long as this Lease is continued in effect as otherwise provided by the terms of this Lease.

2. The royalties to be paid by Lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, 1/4th of that produced and saved from the land, the same to be delivered at the wells or to the credit of Lessor in the pipeline to which the wells may be connected, Lessor's interest in either case shall bear its proportionate share of any

expenses for treating oil to make it marketable as crude; (b) on gas, including casinghead gas or other gaseous substances produced from the land and sold on or off the premises, 1/4th of the greater of (i) the net proceeds received by Lessee from the sale of such gas computed at the Point of Sale (defined below) which shall never be less than the net proceeds received by Lessee from the sale of Lessee's gas; or (ii) the value of the gas as determined by the quoted index price per MMBTU, as reported in the first issue for the month of production of the Inside F.E.R.C. Gas Marketing Report, its successors and assigns, or equivalent publication, for Natural Gas Pipeline Co. of America, Mid-continent Zone, with an appropriate deduction, as reasonably determined by Lessee, for the cost of transmission of the gas between the field and the geographic point referenced by the index price; (c) on all other minerals mined and marketed, 1/4, either in kind or value at the well or mine at Lessee's election; and, (d) at any time and from time to time either at or after the expiration of the Primary Term of this Lease, if there is a gas well or wells on the land or lands pooled with the land subject to this Lease (and for purposes of this clause (e) the term "gas well" shall include wells capable of producing natural gas, condensate, distillate, or any gaseous substance and wells classified as gas wells by any governmental authority) and the well or wells are or have been shut-in before or after production, it shall be deemed that the well or wells are producing gas within the meaning of paragraph 1 and this Lease shall not terminate. In that event, Lessee covenants and agrees to pay, as royalty, shut-in gas royalty in the amount of Ten Dollars (\$10.00) per net acre per annum as long as the well or wells are shut-in and this Lease is not maintained in force or effect by any other of its provisions. The shut-in royalty shall be paid or tendered to Lessor. Any payment or tender of shut-in royalty made under the terms of this Lease may be made by check or draft of Lessee mailed or delivered to Lessor. In the event Lessee is obligated to pay the shut-in royalty indicated, the first payment of shut-in royalty shall be due and payable on or before ninety (90) days following the date on which the well is shut-in, or if shut-in during the Primary Term then on or before ninety (90) days following the expiration of the Primary Term, and subsequent payments, if required under the terms of this paragraph shall be due and payable annually on or before the anniversary of the date of the original payment.

Lessor shall bear the severance or production taxes levied against its royalty share of all production hereunder, and payment of royalties shall be made after deduction of such taxes paid by Lessee thereon. Subject to the foregoing, all of the royalties hereinabove stipulated shall be computed and paid or delivered without any deduction or charge on account of any cost or expense of (i) operation, exploration, development, production, saving, storage, cleaning, extraction, separation, or recovery, or (ii) compression, dehydration, treating, transportation, marketing, delivery, or any other deduction or charge whatsoever that occurs post production, whether of the same or different character, that are incurred prior to the Point of Sale, unless agreed to in writing by Lessor (such costs described in item (ii) being called "Post-Production Costs"). Lessor's royalty share will bear its proportionate share of all third party Post-Production Costs that are actually incurred prior to the Point of Sale (i.e. costs associated with bona-fide arms length contracts between Lessee and unaffiliated third parties. Lessor's royalty share, however, shall not bear Post-Production Costs, if any, that are incurred after the Point of Sale. It is the intent of the parties that the foregoing provisions of this Paragraph 2 are to be fully effective and enforceable and are not to be construed as "surplusage" under the principles set forth in *Heritage Resources v. NationsBank*, 939 S.W.2d 118 (Tex. 1997). Lessor's royalty share will be paid on any consideration paid to Lessee under any gas sales contract including, but not limited to, take-or-pay payments and payments received in connection with any gas contract termination or modification.

Except for the first payment of royalty on gas that shall be due within one hundred twenty (120) days after the date of the first sales, on or before the 25th day of the second month following the month that Lessee receives payment from the first purchaser of oil, gas or products produced from the lands, Lessee shall mail or deliver to Lessor, upon written request, an itemized statement (using all available information it should have) showing the total production of each substance, including products extracted from gas, during such preceding month, the royalties including, without limitation, volumes, prices, severance taxes, and other deductions applicable to each such substance, including plant products, as well as a full and complete explanation of the method of computation of such

royalties on each substance, including all corrections, additions or deductions; and, at the same time without the necessity of written notification from Lessor, Lessee shall remit, or cause to be remitted, to Lessor the royalties due hereunder on production sold during such month covered by such statement. Any royalties or other payments provided for in this Lease that are suspended without cause or not paid to Lessor within the time period specified therefor shall accrue interest at the rate hereinafter provided from the due date until paid, provided that the preceding obligation to pay interest shall not apply if the payment is suspended or is not paid by the first purchaser of production of oil, gas or products produced from the lands, or is suspended or not paid by Lessee because of a good faith dispute of the amount of any royalty to be paid to Lessor. Acceptance by Lessor of royalties that are past due shall not act as a waiver or estoppel of its right to receive or recover any and all interest due thereon under the provisions hereof unless the written acceptance or acknowledgement by Lessor to Lessee expressly so provides. Any tender or payment to Lessor of a sum less than the total amount due to Lessor hereunder which is made or intended to be made as an offer of settlement or accord and satisfaction by or on behalf of Lessee must be accompanied by a Notice of Settlement Offer, so denominated, addressed to Lessor. Any such offer of settlement submitted solely by the tender of a check containing language of settlement or accord and satisfaction printed or otherwise inserted thereon shall not be deemed an offer of settlement or accord and satisfaction, unless preceded by a Notice of Settlement Offer. Should Lessee fail to pay such royalty within such time, then Lessee shall pay to Lessor interest on said accrued royalties at the prime rate of interest established from time to time by JPMorgan Chase Bank, N.A. or its successor, from the due date until the date of payment. If Lessee fails to pay royalty due to Lessor for three (3) or more consecutive months and the aggregate past due royalty owed to Lessor exceeds a cumulative amount over the three months of \$50,000, then Lessor shall, at its option, have the right to cancel this Lease by filing an affidavit of record in Tarrant County, Texas; however, prior to filing such affidavit, Lessor shall give written notice to Lessee conspicuously marked "NOTICE OF LEASE CANCELLATION" via certified mail of such intention, and Lessee shall then have sixty (60) days in which to comply with the provisions of this paragraph. Should Lessee pay Lessor all royalty payments past due during said period with accrued interest, this Lease shall not be cancelled. The rights of Lessor under this paragraph shall be in addition to, and not in lieu of, all rights Lessor may have as to payment of royalty under V.T.C.A. Natural Resources Code §§ 91.401 through 91.405.

The "Point of Sale" shall be a point generally recognized in the industry as a point of sale or point of delivery to multiple purchasers of gas after the gas produced from the lands enters a major gas transmission line and title to such gas is transferred to a party that is not an affiliate of Lessee at such point of delivery. A major gas transmission line is a line owned by an unaffiliated third party that transports gas for multiple producers.

Lessor, without additional cost or expense to Lessee, save and except associated Post-Production Costs that are incurred prior to the Point of Sale (which will be borne by Lessee) shall have a continuing right and option, but not the obligation, to be exercised by Lessor as set forth herein, to take its royalty interest share of production in kind at the Lessee's initial point of delivery into a third party gathering or transportation system; provided, Lessor must give Lessee thirty (30) days advance written notice of Lessor's intent to take its royalty interest share of production in kind, and Lessor's election shall be for monthly periods of at least three (3) consecutive months. The following provisions shall also apply with respect to Lessor's taking its royalty interest share of production in kind:

(i) Lessor shall have equal access to the delivery points for third party purchasers and shippers of Lessor's gas insofar as Lessor has control of the access to such delivery points into which Lessor may then produce;

(ii) Lessee shall deliver all of Lessor's royalty interest share of gas production through its or its affiliate's pipeline or gathering system free of all post-production expenses to the Point of Sale; and

(iii) Any imbalances as between Lessor and Lessee will be handled in accordance with the provisions of a mutually agreeable gas balancing agreement.

Lessor shall have the right to audit, exercisable not more than once during any 12-month period, the accounts and records of Lessee, its successors and assigns, relating to the lands and to its operations under this Lease. Such right shall be exercised by Lessor by giving Lessee not less than ten (10) business day's prior notice and such audit shall be conducted only during normal business hours in Lessee's Houston, Texas home office. If the audit reveals an underpayment of more than \$50,000, Lessee shall be responsible, and promptly reimburse Lessor in respect of all reasonable expenditures by Lessor, for the full costs of the audit, or for those costs up to the amount of such underpayment, whichever is lesser.

If gas is produced from the lands, and if more than one party owns the working interest share of the gas produced, and if any or all of such co-owners elect to take and market their share of such gas separately, resulting in "split-stream" deliveries of such gas to different purchasers, then the following shall apply:

(i) Lessor shall be entitled to Lessor's royalty share (proportionately reduced, as herein provided, if Lessor owns less than all the oil and gas under the lands) of the proceeds of the sale of the entire production of gas produced from the lands, regardless of how such gas is allocated among the working interest owners or to whom such gas is sold, and regardless of any agreements to the contrary among the working interest owners.

(ii) Lessee, its successors and assigns shall be liable for Lessor's entire royalty on such gas production, regardless of whether Lessee actually is allocated or receives any proceeds of sale of any such production. Lessee shall account to Lessor for all of Lessor's royalty share of such gas production, so that Lessor shall not be required to receive royalties from more than one purchaser or working interest owner, and Lessee shall provide production statements from all purchasers of such gas showing the volumes sold and the price paid therefor, and any applicable adjustments.

To secure Lessee's payment of royalties and overriding royalties and compliance with the other terms and provisions of this Lease, Lessor hereby retains, and Lessee hereby grants to Lessor, a security interest in each well of twenty-five percent (25%) (reduced proportionate as to Lessor's interest in such well) of all (as extracted collateral): (A) oil and gas produced, saved and extracted from the lands, under and pursuant to this Lease, and (B) all accounts arising out of the sale of such oil and gas and all proceeds thereof (the "Collateral"). The security interest created hereby shall continue with respect to oil and gas produced, saved and extracted from the lands notwithstanding the sale or other disposition thereof until Lessor, as secured party, receives indefeasible payment of the royalties due with respect thereto under the terms and provisions of this Lease. In addition to any other remedies provided in this Lease, Lessor, as a secured party, may in the event of Lessee's default hereunder, including any failure to pay when due royalties in the amount required hereby, (i) proceed under the Texas Uniform Commercial Code (the "Texas UCC") as to the Collateral, in any manner permitted by the Texas UCC and (ii) shall have available to it the remedy of sequestration available to secured parties, and to the extent permitted by law, the remedies of replevin, attachment and garnishment to assist Lessor in realizing upon its rights. This lease, or a memorandum thereof, shall, upon its recordation, be effective as a financing statement under the Texas UCC, and shall serve as an authenticated record under Texas Business and Commerce Code Section 9.203. The addresses of Lessor, as Secured Party, and Lessee, as Debtor, and information concerning Lessee's organizational type, and state of organization are as set forth in this Lease. To assure continued perfection of the security interest created hereby, (i) Lessee agrees to promptly notify Lessor of any change in its name or jurisdiction of organization, and (ii) Lessee authorizes Lessor to file in any appropriate office a financing statement identifying Lessee as debtor and covering the Collateral and continuation statements with respect to this Lease or any separate financing statement.

The receipt by Lessee from a purchaser or pipeline company of proceeds of production for distribution to Lessor will not result in Lessee, or Lessee's operator,

acquiring legal or equitable title to those proceeds, but Lessee, or Lessee's operator, will at all times hold the proceeds for the benefit of Lessor.

It is specifically provided that this is a Paid-Up Lease during the Primary Term and there shall be no obligations or liability on the Lessee to make any shut-in royalty payment or other payment during the Primary Term, and without any other payment this Lease shall remain in full force and effect during the Primary Term. The obligation to pay the shut-in royalty provided for above shall be a covenant running with the land.

3. If at the expiration of the Primary Term of this Lease, oil, gas, or other minerals are not being produced from the lands or land pooled with the lands subject to this Lease, but Lessee is then engaged in drilling or reworking operations, this Lease shall remain in force so long as drilling or reworking operations, are prosecuted (whether on the same or different wells) with no cessation of more than ninety (90) consecutive days, and if they result in production, so long thereafter as oil, gas, or other minerals are produced from the lands or land pooled with the lands subject to this Lease. If production of oil, gas, or other minerals on the lands or land pooled with the lands should cease from any cause after the Primary Term, this Lease nevertheless shall continue in force and effect as long as additional drilling operations or reworking operations are conducted on this Lease, or on any acreage pooled with the lands, which additional operations shall be deemed to be had when not more than ninety (90) days elapse between the abandonment of operations on one well and the commencement of operations on another well, and if production is obtained this Lease shall continue as long as oil, gas, or other minerals are produced from the lands or land pooled with the lands, and as long thereafter as additional operations, either drilling or reworking are had on the lands or pooled lands. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 467 feet (or 333 feet if the offset well is producing from the Barnett Shale formation) of and draining the leased premises, Lessee agrees to drill offset wells as a reasonably prudent operator would drill under the same or similar circumstances. The judgment of the Lessee, when not fraudulently exercised, in carrying out the purpose of this Lease shall be conclusive.

4. Lessee, its successors and assigns, at its option, at any time and from time to time, and without Lessor's joinder or further consent, is given the right and power to pool all or any part of the land or any interests covered by this Lease, as to oil, gas, condensate or distillate, or any of them, or either of them, with any other land, interests, lease or leases, or any of them adjacent, adjoining, or located in the immediate vicinity of the lands, when in Lessee's judgment it is necessary or advisable to do so in order to efficiently develop or operate the lands in compliance with the spacing rules of the Railroad Commission of Texas, or other lawful authority, or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas on the lands, the pooling to be into a well unit or units not exceeding forty (40) acres for oil plus an acreage tolerance of ten percent (10%), and not exceeding six-hundred-forty (640) acres for gas plus an acreage tolerance of ten percent (10%), provided that should the governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units may be created or enlarged to conform substantially in size with those prescribed or permitted by governmental regulations.

Lessee may pool all or part of the land or interests described above, provided as to oil or gas in any one or more strata and any units formed need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee to pool the lands, or any portion of the lands, into other units. Lessee shall execute in writing and file for record in the county or counties where the lands are situated an instrument designating and describing the pooled acreage, which pooling and designation may be accomplished either before or after a well or wells are drilled or completed on the unit. The entire acreage so pooled into a unit shall be treated for all purposes, except the payment of royalties, overriding royalties or payments out of production, as if it were included in this Lease; and drilling or reworking operations, production of oil or gas, condensate or distillate, cessation of production, or the existence of a shut-in gas well, shall be considered for all purposes, except the payment of royalties, as if the operations were conducted, or the production or cessation of production or existence of a shut-in gas well were on the land, whether or not

the well or wells be located on the lands. In lieu of the royalties, overriding royalties or payment out of production, if any, specified in this Lease, Lessor shall receive from a unit only the portion of the royalty, overriding royalty or payment out of production, if any, as the amount of the acreage (mineral acres) in the lands subject to this Lease, which is placed in the unit bears to the total acreage (surface acres) pooled in the particular unit involved. Shut-in gas royalties with respect to unit shut-in gas wells shall be payable in accordance with the provisions and in the amount set forth in this Lease. Should any unit created by the terms of this Lease contain less than the maximum number of acres specified or allowed, then Lessee may at any later time, whether before or after production is obtained on the unit, enlarge the unit by adding additional acreage, but the enlarged unit shall in no event exceed the acreage content specified or allowed. In the event an existing unit is enlarged, Lessee shall execute and file for record in the county or counties in which the lands are located a supplemental designation and description of the land added to the existing unit; provided, that if the supplemental designation and description is not filed until production is obtained on the unit as originally created, then and in that event the supplemental designation and description shall not become effective until the first day of the calendar month next following the filing. At any time, for any reason, or in the event the well or wells drilled on any unit shall fail to produce oil or gas, or in the event the production from any well or wells shall cease, Lessee may terminate any unitized area. A termination may be accomplished by filing for record in the county or counties where the lands are located proper instruments evidencing that termination.

5. Lessee shall have the free use of oil, gas, and water from the lands, except water from Lessor's wells and tanks, for all operations under this Lease, including but not limited to repressuring, pressure maintenance, cycling, and secondary recovery operations, and the royalty on oil and gas shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this Lease to remove all property and fixtures placed on the lands by Lessee, including the right to draw and remove all casing. No well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on the lands, without Lessor's consent.

6. The rights of either Lessor or Lessee may be assigned in whole or in part, and the provisions of this Lease shall extend to the heirs, executors, administrators, successors, and assigns of the Lessor and Lessee, but no change or division in ownership of the lands or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee or impair the effectiveness of any payment previously made by Lessee. No change or division in the ownership of the lands or royalties shall impair the effectiveness of any payment previously made by Lessee or be binding on Lessee for any purpose (and irrespective of whether Lessee has either actual or constructive knowledge) until 60 days after the person acquiring any interest has furnished, to Lessee with the instrument or instruments or certified copies of them, constituting the person's chain of title from the original Lessor. If Lessee transfers its interest hereunder in whole or in part and such transfer is permitted according to Paragraph 25 below, Lessee shall be relieved of all obligations thereafter existing with respect to the transferred interests from and after the execution date of the assignment transferring such interests, and failure of the transferee to satisfy such obligations with respect to the transferred interests, shall not affect the rights of Lessee with respect to any interests not so transferred. Lessee shall remain obligated hereunder with respect to matters occurring prior to the execution date of such assignment. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this Lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this Lease then held by each.

7. Lessee shall not be liable for delays or defaults in its performance of any agreement or covenant in this Lease due to force majeure (in any event, not to exceed two periods of twelve (12) consecutive months each). The term "force majeure" shall mean: any act of God including, but not limited to storms, floods, washouts, landslides, and lightning; acts of the public enemy; wars, blockades, insurrection or riots; strikes or lockouts; epidemics or quarantine regulations; laws, acts, orders, or requests of federal, state, municipal or other governments or other governmental officers or agents under color of authority; or freight embargoes. If Lessee is required, ordered, or directed by any federal, state, or municipal law, executive order, rule, regulation, or request enacted

or promulgated under color of authority to cease drilling operations, reworking operations or producing operations on the lands covered by this Lease, or if Lessee by force majeure is prevented from conducting drilling operations, reworking operations, or producing operations, then until such time as such law, order, rule, regulation, request, or force majeure is terminated and for a period of ninety (90) days after such termination each and every provision of this Lease that might operate to terminate it or the estate conveyed by it shall be suspended and inoperative and this Lease shall continue in full force. If any period of suspension occurs during the Primary Term, that time shall be added to the Primary Term. None of the protections afforded by this paragraph shall apply to any occurrence or cause within the control of Lessee, or which could have been prevented by Lessee, in the exercise of reasonable prudence.

8. Without impairment of Lessee's rights under any warranty of title set forth herein, in the event of failure of title in whole or in part, it is agreed that if Lessor does not own or have the right to lease the entire mineral estate purported to be leased in the land subject to this Lease, then the royalties and any other sums payable shall be reduced proportionately. To the extent any royalty or other payment attributable to the mineral estate covered by the Lease is payable to someone other than Lessor, such royalty or other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder. Should any party named above as Lessor fail to execute this Lease, or should any party execute the Lease who is not named as a Lessor, it shall nevertheless be binding on the party or parties executing it.

9. Lessee, its successors and assigns, shall have the right at any time to surrender this Lease, in whole or in part, to Lessor or Lessor's heirs and assigns by delivering or mailing a release to the Lessor, or by placing a release of record in the county in which the lands are located. After that time, Lessee shall be relieved from all obligations, expressed or implied, of this Lease as to the lands surrendered.

10. See Exhibit "B" attached hereto for additional provisions applicable to this Lease.

[SIGNATURES AND ACKNOWLEDGMENTS ON FOLLOWING PAGE]

This Lease is executed by Lessor on the date of the acknowledgment of Lessor's signature, but is effective as of the Effective Date.

**Lessor:**

**LUMINANT MINERAL DEVELOPMENT COMPANY LLC**

By: [Signature]  
Name: Brett Wiggs  
Title: Authorized Representative

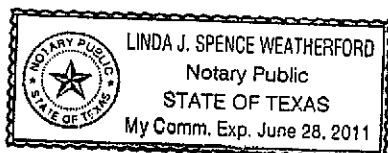
**Lessee:**

**MCF ACQUISITION II LTD**

By: [Signature]  
Name: JOHN E OSBORN  
Title: CFO

STATE OF TEXAS       §  
COUNTY OF DALLAS   §

This instrument was acknowledged before me on August 5<sup>th</sup>, 2008, by Brett Wiggs, Authorized Representative of Luminant Mineral Development Company, LLC, on behalf of said limited liability company.

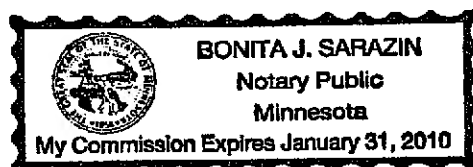


[Signature]  
Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

Minnesota  
STATE OF ~~TEXAS~~ §  
COUNTY OF Hennepin §

This instrument was acknowledged before me on August 19<sup>th</sup>, 2008, by John Osborn, the CFO of Deephaven Capital Management LLC of MCF Acquisition II, Ltd, on behalf of said manager of MCF Acquisition II LLC.

[Signature]  
Notary Public, State of Minnesota  
Printed Name: Bonita J. Sarazin  
Commission Expires: 1-31-2010





**EXHIBIT A**

Attached to and made a part of that certain Oil and Gas Lease by and between Luminant Mineral Development Company, LLC, as Lessor and MCF Acquisition II Ltd., as Lessee, dated April 21, 2008.

## SHERRY SUB-STATION

TRACT 1: Being 2.2813 acres, more or less, out of the P. Caldwell Survey, Abstract # 364, more particularly described in that certain Warranty Deed by and between Truman W. Galloway, et ux, Grantors and Texas Electric Service Company, Grantor, dated April 7, 1953, recorded Volume 2551, Page 130, Deed Records, Tarrant County, Texas. D-1029

TRACT 2: Being 8.150 acres, more or less, out of the P. Caldwell Survey, Abstract #364, more particularly described in that certain Warranty Deed by and between Alpert Investment Corporation, Grantor and Texas Electric Service Company, Grantee, dated January 12, 1972, recorded Volume 5178, Page 217, Deed Records, Tarrant County, Texas. D-2112

TRACT 3: Being 5.339 acres, more or less, out of the P. Caldwell Survey, Abstract #364, more particularly described in that certain Warranty Deed by and between Norbert C. Brecht, et ux, Grantors and Texas Electric Service Company, Grantee, dated March 26, 1953, recorded Volume 2551, Page 294, Deed Records, Tarrant County, Texas. D-1022

TRACT 4: Being 1.517 acres, more or less, out of the A.J. Lee Survey, Abstract # 957, by and between John Eliason, Trustee, Grantor and Texas Electric Service Company, Grantee, dated September 8, 1975, recorded Volume 6005, Page 543, Deed Records, Tarrant County, Texas. D-2289

TRACT 5: Being 12.684 acres, more or less, out of the John W. Gorbett Survey, Abstract # 607, more particularly described in that certain Warranty Deed by and between Ethel B. Redden, a widow, Grantor and Texas Electric Service Company, Grantee, dated April 13, 1972, recorded Volume 5226, Page 421, Deed Records, Tarrant County, Texas. D-2118

SAVE AND EXCEPT 1.422 acres, more or less, out of the J.W. Gorbett Survey, Abstract # 607, more particularly described in that certain Warranty Deed by and between Texas Electric Service Company, Grantor and The City of Arlington, Texas, Grantee, dated October 7, 1980, recorded Volume 7021, Page 2200, Deed Records, Tarrant County, Texas. D-2118

TRACT 6: Being 2.40 acres, more or less, out of the P. Caldwell Survey, Abstract # 364, more particularly described in that certain Warranty Deed by and between H. Roger Lawler, Grantor and Texas Electric Service Company, Grantee, dated August 25, 1972, recorded Volume 5307, Page 736, Deed Records, Tarrant County, Texas. D-2148

**Sherry Sub-Station Subtotal:** **Containing 30.9493 acres, more or less.**

## PARK ROW SUB-STATION

TRACT 8: Being 20.515 acres, more or less, out of the A. Hilburn Survey, Abstract # 643, the T. Holland Survey, Abstract # 644, the W. May Survey, Abstract # 890, the B. Adair Survey, Abstract # 19, the P. Mansolo Survey, Abstract # 991, the T. Holland Survey, Abstract # 750, more particularly described as Tracts 1 thru Tract 11 in that certain Warranty Deed by and between Great Southwest Corporation, Grantor and Texas Electric Service Company, Grantee, dated February 14, 1968, recorded Volume 4554, Page 108. Deed Records, Tarrant County, Texas. D-1938 and

TRACT 9: Being 0.442 acres, more or less, in the City of Grand Prairie, Texas and being part of SITE 7, of GREAT SOUTHWEST – SOUTH, shown by Plat recorded in Volume 388-30, Page 21, Plat Records, and more particularly described in that certain Warranty Deed by and between Rexall Drug and Chemical Company, Grantor and Texas Electric Service Company, Grantee, dated March 21, 1968, recorded Volume 4544, Page 105, Deed Records, Tarrant County, Texas. D-1939

TRACT 10: Being 1.037 acres, more or less, out of the Charles Gibbs Survey, Abstract # 534, more particularly described as Tract A and Tract B in that certain Warranty Deed by and between Jack C. Wessler Trustee, Grantor and Texas Electric Service Company, Grantee, dated May 8, 1967, recorded Volume 67158, Page 1643, Dallas County, Texas. D-1917

TRACT 11: Being 1.158 acres, more or less, out of the Charles Gibbs Survey, Abstract # 534, more particularly described in that certain Warranty Deed by and between Jack C. Wessler, Trustee, Grantor and Texas Electric Service Company, Grantee, dated May 8, 1967, recorded Volume 67158, Page 1639, Deed Records, Dallas County, Texas. D-1918.

TRACT 12: Being 1.479 acres, more or less, out of the J. Langley Survey, Abstract # 975, more particularly described in that certain Warranty Deed by and between Heritage Building Company and G.M. Pointer, Individually, Grantors and Texas Electric Service Company, Grantee, dated August 26, 1972, recorded Volume 5306, Page 546, Deed Records, Tarrant County, Texas. D-2147

**Park Row Sub-Station Subtotal:   Containing 24.631 acres, more or less.**

TRACT 13: Being 7.65 acres, more or less, out of the G.W. Long Survey, Abstract # 933, more particularly described in that certain Warranty Deed by and between Bryant O. Baker, Jr, Individually, and as Independent Executor of the Estate of Susie Esther Baker, Deceased, Grantors, and Texas Utilities Electric Company, Grantee, dated April 25, 1990, recorded Volume 90082, Page 3497, Deed Records, Dallas County, Texas. D-2666

TRACT 14: Being 9.89 acres, more or less, out of the Tapely Holland Heirs Survey, Abstract # 644 and the P. Porter Survey, Abstract # 1712, more particularly described in that certain Warranty Deed by and between Texas Power & Light Company, Grantor and Texas Electric Service Company, Grantee, dated May 21, 1976, recorded Volume 76194, Page 3108, Deed Records, Dallas County, Texas. D-2277.

TRACT 15: 2.56 acres, more or less, out of the John Stephens Survey, Abstract # 1428, more particularly described in that certain Warranty Deed by and between Fred R. Grass, et ux, Grantor and Texas Electric Service Company, Grantee, dated January 25, 1954, recorded Volume 2665, Page 54, Deed Records, Tarrant County, Texas. D-437

TRACT 16: Being 2.23 acres, more or less, out of the J. Stephens Survey, Abstract # 1428, more particularly described in that certain Warranty Deed by and between H.H. Bledsoe, et ux, Grantors and Texas Electric Service Company, Grantee, dated August 27, 1946, recorded Volume 1830, Page 275, Deed Records, Tarrant County, Texas. D-931

TRACT 17: Being 2.15 acres, more or less, out of the J. Stephen Survey, Abstract # 1428 and the J. Hyden Survey, Abstract # 712, more particularly described in that certain Warranty Deed by and between Arlington Independent School District, Grantor and Texas Electric Service Company, Grantee, dated March 20, 1956, recorded Volume 2980, Page 161, Deed Records, Tarrant County, Texas. D-1163

TRACT 18: Being 0.101 acres, more or less, out of the J. Hyden Survey, Abstract # 712, more particularly described in that certain Warranty Deed by and between J.S. Phillips, et al, Grantors and Texas Electric Service Company, Grantee, dated February 17, 1956, recorded Volume 2964, Page 206, Deed Records, Tarrant County, Texas. D-1151

TRACT 19: Being 3.02 acres, more or less, out of the J. Degman Survey, Abstract # 426, more particularly described in that certain Warranty Deed by and between Arlington Terrace Builders, Ltd., a partnership, Grantors and Texas Electric Service Company, Grantee, dated April 20, 1953, recorded Volume 2561, Page 16, Deed Records, Tarrant County, Texas. D-1031

TRACT 20: Being 0.488 acres, more or less, out of the J. Degman Survey, Abstract # 426, more particularly described in that certain Warranty Deed by and between Arlington Independent School District, Grantor and Texas Electric Service Company, Grantee, dated May 24, 1957, recorded Volume 3117, Page 77, Deed Records, Tarrant County, Texas. D-1220.

TRACT 21: Being 2.055 acres, more or less, out of the Elm Shadows Addition, an addition to the City of Arlington, more particularly described as Tract 1 thru Tract 5 in that certain Warranty Deed by and between Elm Shadow, Inc., Grantor and Texas Electric Service Company, Grantee, dated March 22, 1957, recorded Volume 3096, Page 95, Deed Records, Tarrant County, Texas. D-1215

TRACT 22: Being 0.008 acres, more or less, out of the James Hyden Survey, Abstract # 712, more particularly described in that certain Warranty Deed by and between Woods Collins Moore, Individually, and Texas Electric Service Company, Grantee, dated March 4, 1957, recorded Volume 3111, Page 595, Deed Records, Tarrant County, Texas. D-1214

TRACT 23: Being 1.928 acres, more or less, out of the Brookview Addition and the Elm Shadows Addition, more particularly described as Tracts 1, 2 and 3 in that certain Warranty Deed by and between Chester Young, et ux, Grantors and Texas Electric Service Company, Grantee, dated February 28, 1957, recorded Volume 3091, Page 338, Deed Records, Tarrant County, Texas. D-1213.

**Total Acreage: 87.6603 Acres, more or less.**

## **EXHIBIT B**

Attached to and made a part of that certain Oil and Gas Lease by and between Luminant Mineral Development Company, LLC, as Lessor and MCF Acquisition II Ltd., as Lessee, dated April 21, 2008.

11. These additional provisions are attached to and made a part of the Lease. In the event of a conflict between the terms and provisions contained in this Exhibit B and the terms and provisions of the foregoing form Lease, the terms and provisions of this Exhibit B will control.

12. Notwithstanding any other provision hereof:

(A) this Lease covers only oil, gas and other liquid and gaseous hydrocarbons, and other substances of any nature produced in conjunction with said hydrocarbons; and

(B) this Lease is limited to the depths from the surface of the earth to the base of the Barnett Shale Formation

13. Notwithstanding anything to the contrary in the foregoing form Lease, this Lease grants no rights of access to, or use of, the surface of the lands described herein except for conducting seismic operations by way of utilizing the vibroseis-method only (no explosives), and wherever in this Lease the terms "land" or "lands" are used, the same shall be deemed to refer solely to the subsurface of the lands. Lessee is, however, granted a subsurface easement to horizontally drill under the surface of the lands covered hereby for wells producing under the lands and lands pooled therewith. Except as to the seismic operations noted above, Lessee is prohibited from undertaking any acts which in any manner will interfere with Lessor's use and operation of Lessor's facilities located on or above the land covered hereby. Lessee agrees to pay for all damages, if any, which may be inflicted upon the surface of the lands as a direct result from said seismic operations. No well on the lands, or lands pooled or unitized herewith may be drilled nearer than 200 feet from any facility or structure belonging to Lessor.

14. This lease may not be maintained by the shut-in gas royalty provisions of Paragraph 4 after the expiration of the Primary Term for more than 2 years in the aggregate, calculated by the aggregate total amount of shut-in time during the productive life of the shut-in well.

15. The parties hereto acknowledge that this Lease covers numerous non-contiguous tracts of land (referred to collectively herein as the "Tracts"), all of which must be developed by including the Tracts in a pooled unit(s) with other acreage not covered by this Lease. No Tract may be pooled or unitized by Lessee unless the entirety of the Tract is included in the unit so created. A pooled unit for a gas well that is drilled as a horizontal drainhole well under Rule 86 of the Railroad Commission of the State of Texas and is completed in the Barnett Shale formation shall not exceed forty (40) acres plus the additional acreage listed in the tables of such Rule 86 for Fields with a Density Rule greater than 40 acres; provided however in the event of multiple horizontal gas wells being drilled in the Barnett Shale formation, Lessee has the option but not the obligation to form one pooled unit in accordance with its authority as provided in paragraph 4 so long that the collective acreage being pooled in relation to each such well does not exceed that which is permitted under Statewide Rule 86 as provided herein. No pooling or unitization of royalty interests as between any two or more Tracts is intended or shall be implied or result merely from the inclusion of such separate Tracts within this Lease. The formation of any unit hereunder which includes land not covered by this Lease shall not have the effect of exchanging or transferring any interest under this Lease (including, without limitation, any shut-in royalty which may become payable under this Lease) between parties owning interests in land covered by this Lease and parties owning interests in land not covered by this Lease. Lessee may not release any of the lands described herein from a pooled unit(s), unless all pooled leases are released as to the lands within the unit(s). At any time while this Lease is in force Lessee may dissolve any unit established hereunder by filing for record in the public office where this Lease is recorded a declaration to that effect, if at that time no operations are being conducted

thereon for unitized minerals. Subject to the provisions of paragraph 4 and this paragraph 15, a unit once established hereunder shall remain in force so long as any lease subject thereto shall remain in force.

16. At the end of the Primary Term, (if this Lease is maintained in effect at the expiration of the Primary Term), Lessee must commence a continuous development program with respect to any Tracts not included in pooled units as of such date. The term "continuous development program" means that not more than 180 days may elapse between the deemed date of completion of one (1) well and the commencement of actual drilling operations for the next succeeding well and such operations shall continue in a like manner until such time that all Tracts are included in pooled units. If at the end of the Primary Term of this Lease Lessee is not engaged in drilling operations, but Lessee has completed a well on the lands or lands pooled therewith within one hundred eighty (180) days prior to the end of the Primary Term, Lessee shall nonetheless be deemed to be engaged in continuous drilling operations provided a succeeding well is commenced within one-hundred and eighty (180) days from the date of completion of the preceding well that was completed within one hundred eighty (180) days prior to the end of the Primary Term. If, during the period Lessee is deemed to be engaged in operations in compliance with the continuous drilling program of this Lease, Lessee loses or junks the hole or well or encounters any other mechanical or technical difficulties incident to drilling and after diligent effort in good faith is unable to complete said operations, then Lessee may preserve Lessee's rights hereunder by commencing, not later than ninety (90) days after the date of the abandonment of said lost or junked well, the drilling of a substitute well at a site on the tract upon which the lost or junked hole was commenced but not completed, and by thereafter completing said substitute well. In such event the completion of the substitute well shall be deemed to be a completion of the lost or junked well in compliance with the continuous drilling program defined herein. If more than 180 days elapse between the completion of one well and the commencement of the next succeeding well as stated above, then this Lease will terminate as to all Tracts not then included in pooled units on which a producing well exists (including a well capable of producing that is deemed producing by the proper payment of shut-in royalty). After a Tract is included in a pooled unit, the Tract shall be considered subject to a separate Lease, containing terms and provisions identical to those set forth in this Lease. Each such separate Lease may be kept in force and effect only by actual or constructive production or operations on the pooled unit in which such Tract is included, without regard to production or drilling operations on other pooled units in which other Tracts are included. Within 90 days after any partial termination of this Lease, Lessee shall execute and deliver to Lessor a recordable release of this Lease as to all lands, save and except the Tracts as to which this Lease is preserved as set forth herein. For the purposes of this paragraph, (i) a well shall be deemed to have commenced when a rig and machinery capable of drilling to a depth sufficient to test the Barnett Shale formation has been erected on the well location and (ii) the completion date of non-producing wells shall be the date of final plugging and abandonment, and the completion date of producing wells shall be the date the well is physically completed and capable of production, including the completion of the potential test and all other tests required by the regulatory agency having jurisdiction; provided, the term completion date of a well shall never be deemed to be more than sixty (60) days following release of the drilling rig.

17. Lessee shall, jointly and severally, indemnify, hold free and harmless, assume liability for, and defend Lessor, its affiliates, agents, servants, employees, officers, and directors from any and all costs and expenses including, but not limited to, attorneys' fees, reasonable investigative and discovery costs, court costs, and all other sums (collectively, "Claims") which Lessor, its affiliates, agents, servants, employees, officers, and directors may pay or become obligated to pay on account of any, all and every demand for, claim or assertion of liability, or any claim or action founded thereon, arising or alleged to have arisen out of Lessee's or their affiliates' use of real or personal property belonging to Lessor, its affiliates, agents, servants, employees, officers, and directors, and including specifically the lands described herein, or by any action or omission by Lessee or their affiliates and their respective members, agents, servants, employees, officers or directors, or due to any operation or other action taken by Lessee on the Leased Premises, unless the Claims result solely from the negligence or willful misconduct of Lessor.

**18. Information to be furnished to Lessor:**

- (A) copies of all applications for drilling permits and initially designated units filed with the Texas Railroad Commission and/or executed by Lessee, the drilling of the initial well on such unit or any of the other lands included in this Lease; and
- (B) copies of any assignment or farmout agreement of this Lease, or any interest therein, within 30 days of the date of such document.
- (C) copies of daily drilling reports of which this lease is included in the Pooled Unit.

**19.** All the terms and provisions of this Lease are hereby expressly made subject to all Federal, State and Local laws and to all orders, rules, regulations and standards issued thereunder by all duly constituted political subdivisions and agencies having jurisdiction and this Lease shall ipso facto be considered supplemented and/or amended accordingly to make this Lease subject thereto, and Lessee hereby warrants that it will comply with any and all such laws, orders, rules, regulations and standards of all such Federal, State and Local political subdivisions and agencies applicable to the control, regulation and prevention of pollution and discharge and Lessee expressly agrees to indemnify and hold Lessors free and harmless from any damages, claims, costs, demands, fines, causes of action and losses of whatever nature arising out of or in connection with any failure of compliance or violation of any such laws, orders, rules, regulations and standards.

**20.** EXCEPT AS EXPRESSLY SET FORTH HEREIN, LESSOR DISCLAIMS ALL WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OF TITLE WITH RESPECT TO THE LEASED PREMISES.

**21.** All written notices required under this Lease must be hand delivered or sent by certified mail addressed to the proper party at the following address:

Lessor: LUMINANT MINERAL DEVELOPMENT COMPANY, LLC  
Attention: Oil & Gas Mineral Development  
1601 Bryan Street  
Dallas, TX 75201

Lessee: ~~Deephaven~~ MCF Acquisition II Ltd  
c/o Deephaven Capital Management LLC  
130 Chesire Lane  
#102  
Minnetonka, MN 55305

**22.** All royalty payments are to be made payable to Luminant Mineral Development Company, LLC and mailed to Lessor as follows:

Luminant Mineral Development Company, LLC  
Attention: Oil & Gas Mineral Development  
1601 Bryan Street  
Dallas, Texas 75201

**23.** Lessee is hereby given the exclusive option to extend the Primary Term of this Lease for an additional two (2) years from the expiration of the original Primary Term. This option may be exercised by Lessee at any time during the last year of the original Primary Term by paying to Lessor, herein, or its successors or assigns, an amount equal to two-thirds (2/3rds) of the eight-eighths (8/8ths) cash bonus paid when this Lease was originally acquired ("Lease Extension"). Lessee shall exercise the Lease Extension by placing written notice of such election along with the referenced payment to Lessor prior to the end of the original Primary Term hereof. The Lease Extension shall be deemed to be properly, timely and fully exercised if payment is mailed by Lessee to Lessor's last known address on or before the expiration of the Primary Term. It is agreed and

understood that Lessee shall have no obligation to conduct continuous development program operations during the Lease Extension should it exercise its rights in accordance with this Paragraph 23.

24. Lessee's obligations under this Lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including environmental regulations, setback requirements, restrictions on the drilling and production of wells, and the price of oil, gas and other substances covered hereby. Lessor hereby agrees that, in the event Lessee deems it necessary to seek a variance, waiver or other relief from any laws, rules, regulations, or orders (which for purposes of this paragraph shall include any ordinance) or other such authority exercised by (i) the City of Arlington, including but not limited to the well setback distance for gas drilling and production, or (ii) by any other governmental entity or authority having jurisdiction, then Lessor shall engage in reasonable acts (at no cost and expense to Lessor) and execute and deliver such instruments and documents Lessee deems necessary or convenient in seeking such relief. In the event Lessee is required by such authority to acquire Lessor's consent as a prerequisite to obtain such variance, waiver or other relief, Lessor grants to Lessee and agrees that Lessee's leasehold estate acquired hereunder includes the right to utilize this Lease as Lessor's consent and ratification of any subsequent variance, waiver or other relief Lessee seeks, without the necessity of Lessee obtaining any additional or subsequent consent(s) from Lessor. Lessor furthermore agrees not to execute documents or instruments or engage in acts that would diminish or adversely affect the relief Lessee is seeking. Lessor is not obligated to comply with the provisions of this paragraph if, by so doing, any terms of this Lease would be altered, modified or amended.

25. It is expressly understood and agreed that Lessor is granting rights to Lessee that Lessor would not grant to others. Therefore, prior written approval of Lessor is required for any assignment or sublease of this Lease, which approval shall not be unreasonably withheld, provided, however, that such prior approval shall not be required if the assignee is a publicly traded energy company with a market capital greater than \$250,000,000 and that operates at least ten (10) wells producing from the Barnett Shale formation. All assignments and subleases must require the assignee or sub-lessee to assume all of Lessee's obligations under this Lease.

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